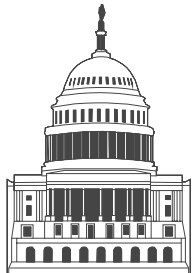


SENATE
REPUBLICAN
CAUCUS
CHAIRMAN



GOVERNOR'S
2003 BUDGET
MAY REVISION

"The Governor's second try at a balanced budget again fails to address the state's underlying economic crisis. The Governor is ignoring the dire straits hardworking businessmen and women are in, compounded by swelling workers' compensation and liability insurance premiums, higher taxes and increased regulatory burdens. By increasing taxes and putting off the pain of today's budget with credit schemes, the Governor is making California more hostile to business."

-Chuck Poochigian

MAY 15, 2003

Senator Charles S. Poochigian



Capitol Update

GOVERNOR RELEASES MAY REVISION TO 2003 BUDGET

Governor Davis released the annual May Revision ("May Revise") to his proposed 2003 budget. The May Revision provides an update to his spending plan released in early January. The changes reflect the most recent estimates of economic indicators and budgetary forecasts. The Governor projects a two-year \$38.2 billion deficit over this year and the budget year beginning on July 1.

GENERAL FUND SPENDING

GOVERNOR'S JANUARY 10 BUDGET (\$ BILLIONS)		GOVERNOR'S MAY REVISION (\$ BILLIONS)	
2002-03	2003-04	2002-03	2003-04
\$75.5	\$62.8	\$78.1	\$70.4

Despite the record high deficit, the Governor is proposing to continue to grow government and spend an additional \$10.2 billion (current and budget years).

ASSAULT ON BUSINESSES CONTINUES

The Governor's May Revision fails to provide any proposals which would stimulate the economy or mitigate any of the laws and regulations which have been heaped on businesses in the last few years, making California a hostile state for businessmen and women.

Instead, this budget proposal exacerbates the hostile business environment by increasing taxes, specifically, the Governor's proposal to impose \$1.6 billion in higher personal income taxes. While the Governor suggests this proposal is aimed at "the very rich," it fails to recognize the serious impact this will have on the many California small businesses which file their business taxes with their personal income taxes.

Additionally, the budget includes a **\$3 billion increase in unemployment insurance taxes** to pay for benefit increases passed by the Legislature and signed into law in 2001. According to the Employment Development Department, which collects the tax from employers, the fund is depleted due to the more expensive claims. Of the \$3 billion tax increase, \$1.6 billion is projected to be collected in the current fiscal year. This could mean that businesses will receive notices from the state for the additional \$1.6 billion within the next 2 months.

TAX AND FEE INCREASES

The Governor proposes a number of significant tax increases:

Tripling of the Car Tax (effective 7/1/03)	\$4.2 Billion
½-Cent Sales Tax Increase	\$2.3 Billion
Personal Income Tax Increase New 10.3% bracket for those earning more than \$150,000 (Single) and \$300,000 (Joint)	\$1.6 Billion
Tobacco Tax Increase \$0.23/pack increase in 2003-04 another \$0.40/pack increase in 2004-05	\$267 Million (02-03) \$678 Million (03-04 and ongoing)
Unemployment Insurance Tax Increase	\$1.6 Billion (02-03) \$1.4 Billion (03-04)
Workers' Compensation Fees Imposes new fees on all employers to pay for the administration of the workers' comp system	\$73.7 Million
Manufacturers Investment Tax Credit Reduces eligibility for bakery operations in supermarkets	\$50 Million
Regulated Investment Companies (RICs) Prevents banks from utilizing RICs	\$45 Million
Governor's "Polluter Pays" Initiative Additional Mill Assessment Increased Waste Discharge Fees Increased Air Permit Fees	\$7.5 Million \$13.6 Million \$10 Million

EXPENSIVE AND RISKY BORROWING PROPOSAL

Central to the Governor's proposal is the long-term borrowing scheme which allows the state to issue \$10.7 billion in bonds by October of 2003, and pay for them with the \$2.3 billion annual sales tax increase also proposed by the Governor. The Governor suggests that the tax increase would remain intact for at least five years, and probably longer in order to pay the bond issuance costs and the interest costs, along with the actual \$10.7 billion principal.

Last year, the Budget Act included a similar financing scheme that was projected to generate \$4.5 billion. Given the risky nature of proposals such as these, those bonds were never sold. Not only did that create a \$4.5 billion hole in this year's budget, it provides an all-too-recent example that these types of financing schemes are shaky and not likely to result in a real solution.

CENTRAL VALLEY ISSUES

Williamson Act – The May Revise restores the full Williamson Act funding (\$40 million) which had been proposed by the Governor in the January budget to be eliminated.

Mill Tax – The Governor proposes to increase the mill tax by \$7.5 billion, eliminating all General Fund support for the pesticide program. The Governor calls it "polluter pays" and would ensure that the agricultural industry bears the entire cost of this program.

Rural Crime Prevention Program – The May Revision proposes to reduce by \$3.4 million a number of local grant programs, including a \$200,000 reduction to the Rural Crime Prevention Program.

COPS and High Technology Grants – The May Revision proposes to maintain full funding for both of these public safety programs.

War on Methamphetamine – The May Revision includes full funding (\$15 million) for the War on Methamphetamine.

High-Speed Rail – The May Revision reverses the consolidation of the High Speed Rail Authority with Caltrans.

Forensic Services Lab Costs – The May Revision eliminates the Governor’s January proposal which mandated that local agencies pay \$3.5 million in fees for forensic lab services.

HEALTH AND WELFARE PROGRAMS

“Realignment”

The May Revisions rescinds most of the “realignment” proposal that Governor put forth in January. County governments opposed the January proposal because it was not fiscally sound. The remaining components of the realignment proposals are proposed to be financed by the personal income tax hike (\$1.5 billion) and the tobacco tax increase (\$300 million) and include:

Mental Health Programs	\$75 Million
Children and Youth Programs (Foster Care and Child Abuse Programs)	\$457 Million
Social Services (CalWORKs Grants and Admin.)	\$1.2 Billion

Medi-Cal

The Governor’s May Revision increases the Medi-Cal program by adding another \$621 million in the current year and another \$2.8 billion in the budget year to expand the state’s Medicaid-style program which provides healthcare to low-income individuals.

LOCAL GOVERNMENT IMPACTS

CURRENT YEAR 2002-03	COST TO LOCAL GOVERNMENT	MAY REVISION STATUS
Eliminate the car tax (VLF) backfill	\$1.3 Billion	Deleted, VLF increased. 7/1/03
Reduce grants to Public Library Foundation	\$15.8 million	Remains
Transfer from Redevelopment Development Agency Housing funds	\$500 million	Remains
Reduce State Highway Account funding for streets and roads	\$90 million	Remains
Revert flood control subvention	\$58 million	Already adopted by Legislature.

BUDGET YEAR 2003-04	COST TO LOCAL GOVERNMENT	MAY REVISION STATUS
Eliminate car tax (VLF) Backfill	\$2.9 million	Deleted, raises VLF
Eliminate Williamson Act	\$39 million	Deleted, fully funded
Eliminate Booking Fee Subvention	\$40 million	Remains
Defer payments of mandates	\$770 million	Increases deferral suspends 34 mandates and repeals one
Transfer redevelopment property tax to schools	\$250 million	Remains
Transfer “undesigned” fees from counties to courts	\$31 million	Remains
Reduce corrections and law enforcement payments	\$62 million	Remains
Reduce grants to libraries	\$14.8 million	Remains
Reduction to Public Library Foundation	\$12.1 million	Remains
Suspend transfer of sales tax on gas to Transportation Infrastructure Fund	\$1.05 billion	Modified. Reduced transfer by \$200 million.
Cancel GF loan repayment to Transportation Congestion Relief Fund	\$500 million	Remains
Realign health/social services	\$8 billion	Reduced to \$1.8 billion

K-12 EDUCATION

The Governor’s proposal includes full funding of the Proposition 98 guarantee (under Test 2). The Governor’s May Revise increases Proposition 98 spending in the budget year by \$1.5 billion (\$879 million of which is simply reinstating childcare, which was originally proposed to be part of the January realignment). Therefore, the May Revise includes a \$624 million increase in K-12 education spending in the budget year. Other highlights include:

- **Class Size Reduction** – The May Revise includes \$1.7 billion in funding to maintain the Class Size Reduction program. The Governor proposed a \$180 million cut to the program in his January budget through his across-the-board cuts.
- **Deferrals** – In January, the Governor proposed to defer \$1.82 billion in current year Prop. 98 funds to the 2003-04 budget year. These deferred appropriations will instead count toward the 2003-04 obligation. The Governor proposes to defer another \$1.16 billion in the budget year to 2004-2005.
- **Growth and COLA** – Growth and cost of living (COLA) in the current year are estimated to be 1.75 percent, up from 1.48 percent. The May Revise proposes a 1.34 percent increase, an increase from the 1.00 percent they estimated in January.
- **Revenue Limit Equalization** – The Governor proposes to completely eliminate all \$250 million for equalization.
- **Special Education** – The May Revise includes an increase of \$63.4 million for special education, resulting from an increase of funds from the federal government and the General Fund.
- **Supplemental Grants** – The Governor proposes to reduce this categorical education program by one-third of the program’s total. These grants typically assist rural school districts.
- **Categoricals** – The May Revise proposes to reinstate \$835 million of the original proposed \$854 million cut to categorical education programs. However, the Governor proposes \$961 million in cuts to specific programs in order to pay for the reinstatement of the categorical programs.

PROGRAMS TO BE REDUCED	CUT (\$ MILLIONS)
Equalization	\$250
Deferred Maintenance	\$129
Summer School	\$85
Defer Mandates	\$125
Instructional Materials	\$76
Teaching as a Priority (cut results in program elimination)	\$89
Elementary Intensive Reading (cut results in program elimination)	\$31
Peer Assistance and Review	\$25
Miller-Unruh Reading (cut results in program elimination)	\$29
School Improvement	\$42
Supplemental Grants	\$80

HIGHER EDUCATION

Community Colleges

The May Revise includes an increase of \$305 million, after a current year reduction of \$30.5 million. The Governor's January proposal to increase fees \$13 per unit is scaled back in the May revise to \$7 per unit, resulting in a per unit fee of \$18.

California State University

The Governor proposes a further reduction of \$5 million to be added to the \$326 million reduction in General Fund he proposed in January. Essentially, this maintains the fee increase proposed in his January budget.

University of California

The Governor proposes reducing the UC budget by \$371.5 million (\$1.5 million less than he proposed in January). Essentially, this maintains the fee increase proposed in his January budget.

California Postsecondary Education Commission (CPEC) and California Student Aid Commission (CSAC)

The Governor proposes to consolidate these entities.

Financial Aid Programs

- The Governor's proposal eliminates Cal Grant T awards for the budget year. These awards are for students in teaching credential programs.
- The May Revision proposes to restore Governor's Scholarship Programs, which were reduced in the mid-year revisions.